



Director of
Central
Intelligence

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NOFORN-NOCONTRACT-

National Intelligence Daily

**Tuesday
8 October 1985**

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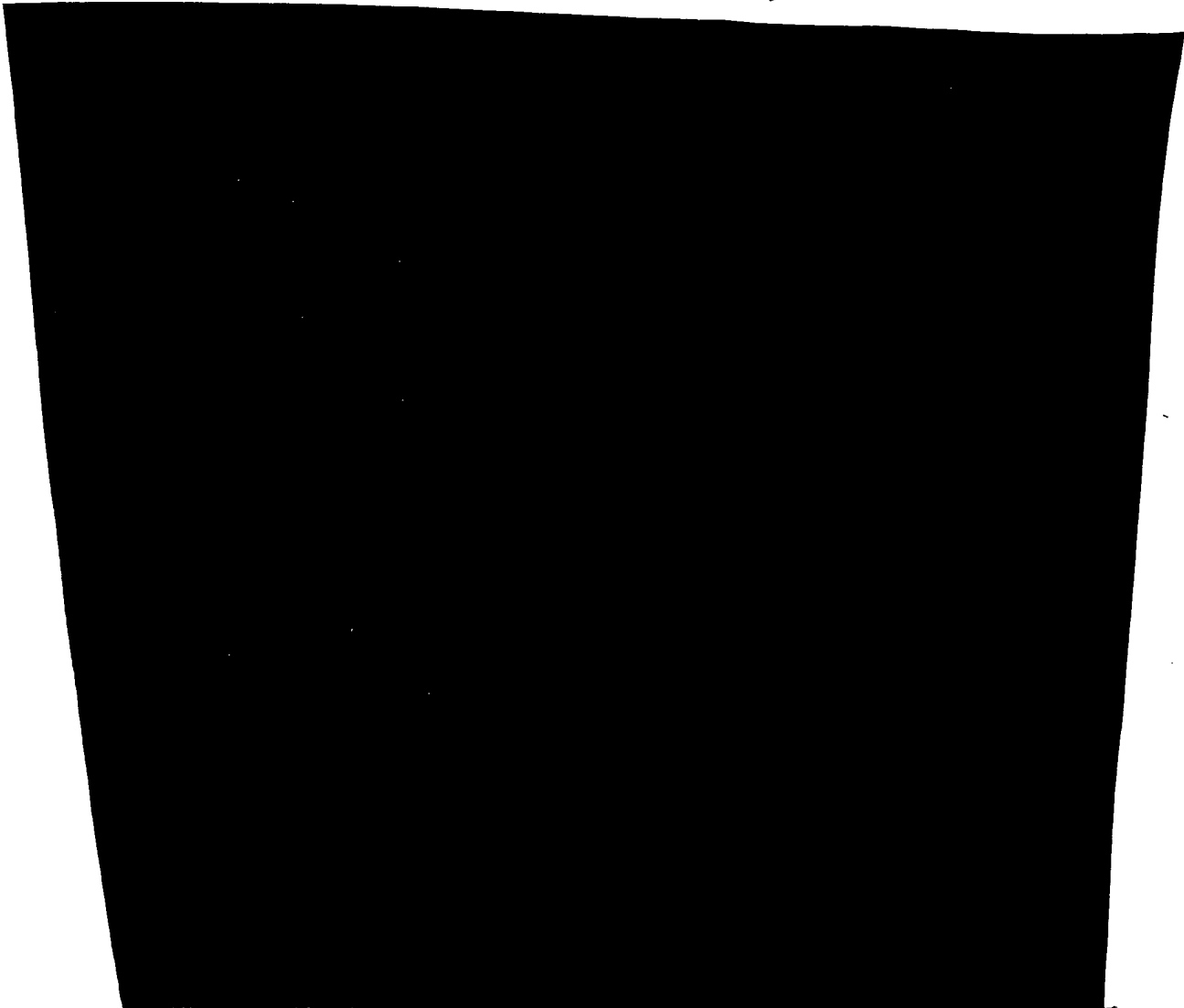
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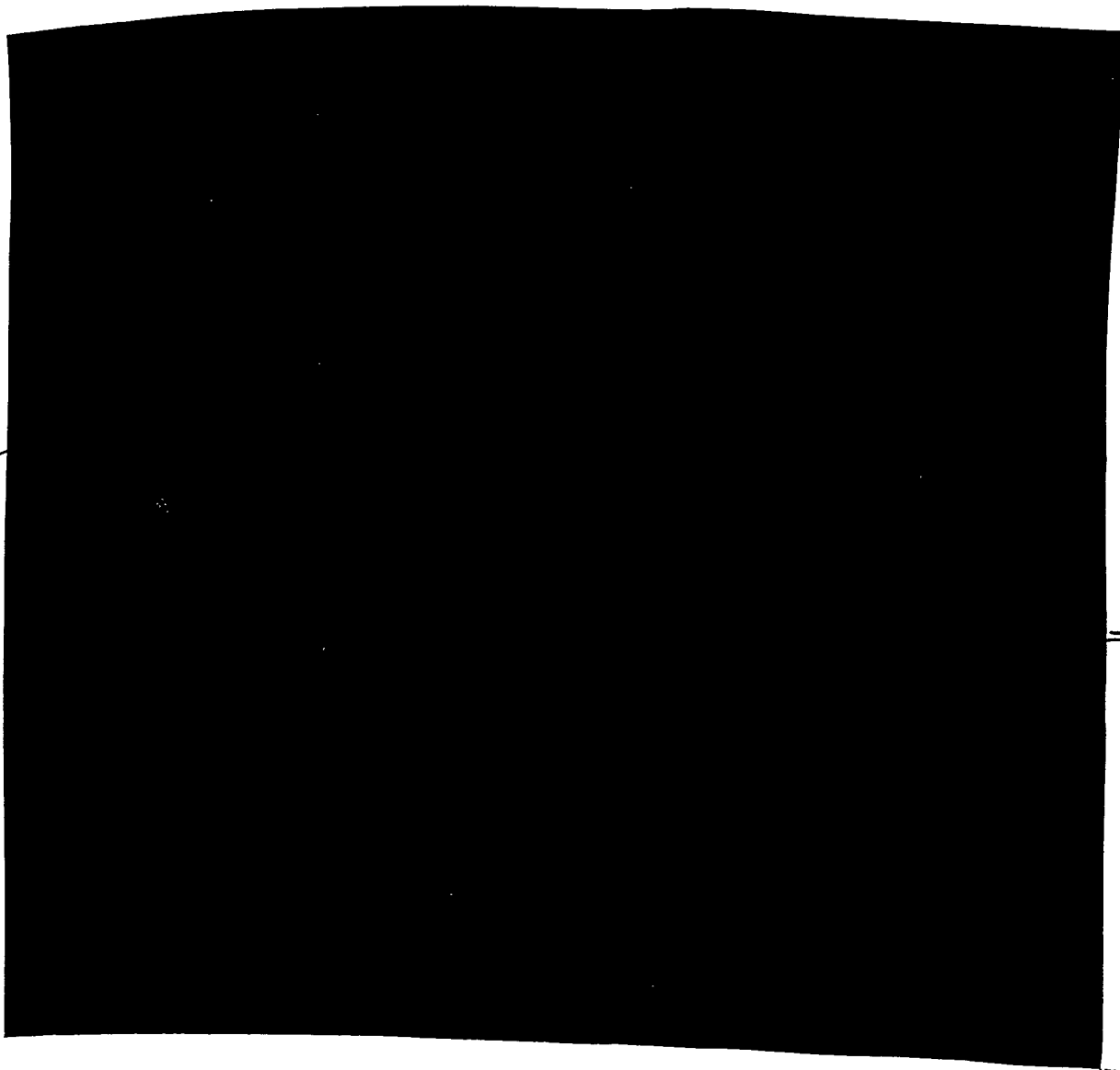
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INTERNATIONAL: UNESCO Session Opens

The biennial UNESCO General Conference, which opens today in Bulgaria, will assess the state of the organization in the wake of the US withdrawal. The Conference will consider the future of US citizens working in the Secretariat and the alleged responsibility of the US for a financial contribution for 1985 even though it withdrew midway through the 1984-85 budget period.

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Most developing countries in the Group of 77 and Director-General M'Bow oppose major changes.

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The Conference might, in the worst case, ask the World Court to declare the US liable for its entire 1984-85 contribution. Several members will call for the removal of all US employees in the Secretariat, but the Conference is likely to decide on reducing the US contingent through attrition. The Soviets will encourage M'Bow to replace the Americans with Soviets and East Europeans.

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In Brief

East Asia

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— North Korean, South Korean sports officials meeting under auspices of International Olympic Committee to discuss 1988 Olympics ... little progress expected on P'yongyang's demand to cohost games.

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— China, Czechoslovakia signed trade, industrial cooperation agreement last week ... agreed to double value of two-way trade next year to at least \$465 million ... Czechs to deliver two 500-megawatt thermal power stations to China.

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Africa

— Sierra Leonean Army Commander Momoh confirmed as President Stevens's successor in referendum last week ... Stevens will be under pressure from military to step aside before term expires in December.

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— Nationwide day of prayer planned tomorrow by South African church leaders, including Bishop Tutu, drawing mixed support from antiapartheid groups ... some nonwhites may boycott work ... militant nonwhite youths may mount violent protests.

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Europe

— CEMA deputy premiers in USSR 24-26 September stressed need for direct regional links among enterprises to achieve integration ... no mention of progress coordinating five-year plans for 1986-90.

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USSR

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Middle East

[REDACTED]

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— Cease-fire holding in Tripoli, **Lebanon** . . . **Syrian** troops have entered city to collect heavy, medium weapons . . . encirclement of city prevents resupply of **Iranian**-backed Sunni fundamentalists and their pro-Arafat Palestinian allies.

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— **Syrian** President Assad arrived in **Czechoslovakia** yesterday . . . visit postponed from last June due to TWA hijacking . . . probably will talk about training, arms sales.

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Special Analysis

LEBANON:

Economy Down But Not Out

In 10 years of intermittent civil war the Lebanese economy has shriveled to about half its prewar level. In the last year, inflation has soared to more than 70 percent annually, the Lebanese pound has depreciated by 60 percent, and government debt has grown by over a one-third. But the central bank has been able to rebuild its foreign exchange reserves to some extent, and agricultural production in the south is beginning to recover from the disruptions caused by the Israeli invasion three years ago.

Much of Lebanon's economic infrastructure has been damaged or destroyed, many of its most skilled people have emigrated, and the country is cut into sectarian zones of influence where factional militias independently collect taxes and operate illegal ports.

Borrowing To Stay Alive

government spending—the payroll and a few public works projects—is one of the principal reasons the economy retains any vitality. Such spending has continued to grow, although revenues have dropped to practically nothing. Receipts from custom duties, formerly the main source of funds, totaled only \$10.5 million for the first half of this year, less than 15 percent of the amount needed to meet the budget; expenditures were nevertheless increased at midyear to \$650 million. The deficit for 1985 is likely to set a new record, probably well over \$525 million.

Government debt grew from \$1.6 billion at the end of 1984 to \$2.1 billion at the end of July. So far, however, the government has had no problem in funding its deficit because Lebanese banks have few other alternatives for investment.

The Economy Hangs On

Industry continues to function, but at a very low level. The unstable security situation keeps industrialists from expanding capacity, maintaining large inventories, or even anticipating future sales. Limitations in credit and the drop in the value of the pound have hurt the ability of manufacturers to import raw materials. Goods smuggled in through illegal ports also make many domestic products uncompetitive. The contraction of local demand, little credit, and fear of damage to stocks have also hurt commerce.

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Agriculture probably is the brightest spot in Lebanon's economy. Agricultural sales suffered considerably following Israel's invasion of southern Lebanon in 1982—orchards were destroyed and transportation difficulties and boycotts by some Arab countries caused sales and exports to fall. With the pullback by Israel, most of these problems probably will ease and more land will be put back into production. In addition, the fall of the Lebanese pound makes the nation's farm products more competitive in export markets. [REDACTED]

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Unusual Sources of Income

Although Lebanon's economic picture is gloomy, the Lebanese are survivors; no one is starving, and sources of funds are still available. There have been numerous reports of a renewed flow of money from abroad to militias in Lebanon, perhaps as much as \$100 million a month. [REDACTED] the Beirut financial community believes Palestinians trying to reestablish their position in Lebanon brought in some \$400 million during April, May, and June, although nothing in July and August. The many militias, both Muslim and Christian, provide employment for otherwise unemployed youth. [REDACTED]

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Illegal trade with Syria, which may amount to as much as \$75 million a month, also increases commercial activity and provides income. Lebanese workers and businessmen abroad still send home \$60-90 million a month. [REDACTED]

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The lucrative drug trade is another source of funds. Hashish cultivation in the Bekaa Valley has been unencumbered by government control or Syrian interference for several years. The trade in hashish has been estimated to be worth between \$600 million and \$1 billion a year. Lebanon is also a transit point for heroin and cocaine. [REDACTED]

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Outlook

The Lebanese economy cannot rebound until the security situation is brought under control. This will require political accommodation among the various factions, which does not appear to be in the cards. The government will have no choice but to finance its spending through borrowing, even though the process will eventually generate greater inflation. Lebanon can expect little in the way of foreign aid for rebuilding as long as the war continues. [REDACTED]

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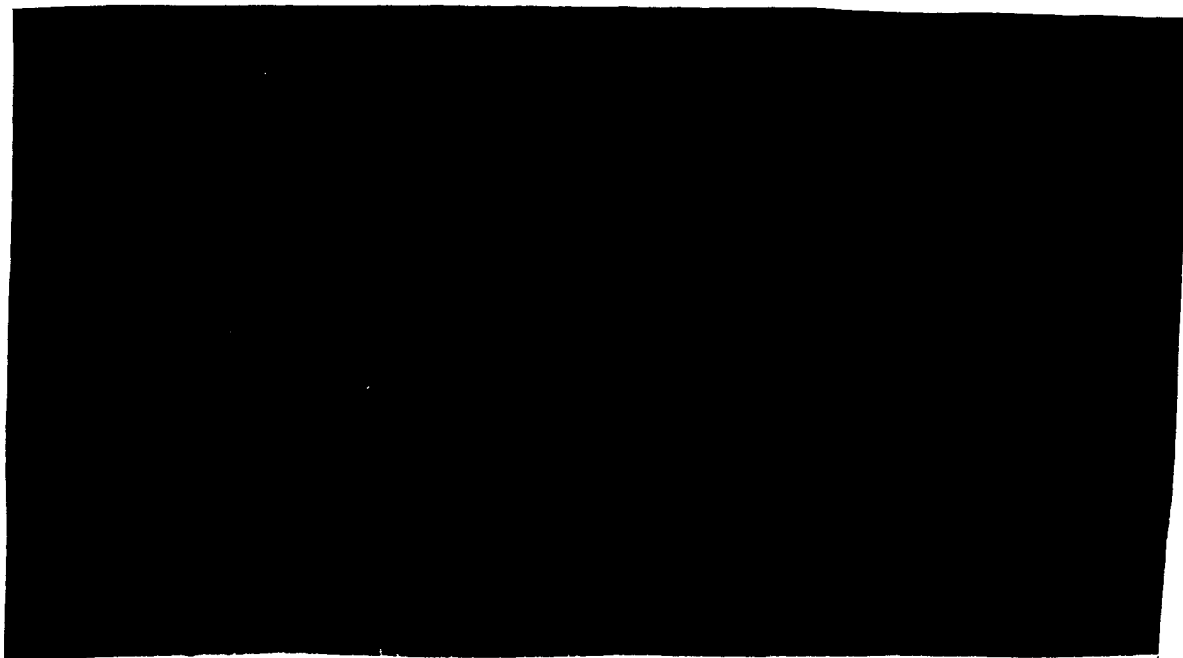
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Special Analysis

IRAQ-US:

Visit of Foreign Minister

As Iraqi Foreign Minister Tariq Aziz prepares to visit Washington tomorrow, Baghdad is optimistic about its relations with the US, despite frictions caused by US ties to Israel. The Iraqis are particularly encouraged by consistent US support in the war against Iran for the past year and by progress in bilateral economic ties. Because of Iraq's dependence on Soviet arms and its ambitions in the Nonaligned Movement, however, Baghdad will continue to oppose the US on many issues. Moreover, US-Israeli relations and unrealistically high Iraqi expectations of the US are likely to complicate the relationship.

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Continued US support against Iran is what Iraq wants most from the visit. US efforts to stop the flow of arms to Tehran have surprised and pleased the Iraqis.

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Iraq believes its relationship with the US also serves its ambitious economic development plans. The Iraqis view the recently initialed draft agreement on commercial, financial, and technical relations as an important symbolic and practical step in developing closer ties.

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Iraq's need for US support has helped moderate its foreign policy, at least in the Middle East. It no longer allows radical Palestinian terrorist groups to operate from Iraqi territory and has cooperated with US efforts to combat terrorism. Iraq late last year in effect closed down the 15 May organization inside the country and put its leader under house arrest. It also expelled Abu Nidal and the remnants of his group in 1983.

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Differences Remain

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The improvement in Iraqi-US ties, moreover, has not extended to Iraqi behavior in the UN and other international forums. Baghdad's aspirations to leadership of the Nonaligned Movement have led it to join attacks on alleged US imperialism to avoid charges of selling out to Washington.

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Baghdad's positions on most issues important to Moscow reflect its dependence on Soviet arms.

[REDACTED]

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Potential Problems

Baghdad will continue to view US willingness to provide trade credits and sophisticated technology as an important test of the relationship. US refusal of Iraqi requests would lead Baghdad to turn increasingly to Western Europe and Japan to meet its economic needs. In the short term, however, Iraq probably would mute its anger because it needs Washington's support in the war.

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Baghdad will be suspicious of any postwar US efforts to improve ties to Tehran. The Iraqis believe both superpowers regard Iran as having greater strategic value. An improvement in US-Iranian ties probably would not cause major damage to US relations with Iraq, however, unless Washington offered to sell Tehran weapons or sophisticated technology with military applications.

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INDIA:

Next Steps in Punjab

The accord between Prime Minister Gandhi and Punjab's Sikhs last July and the state election two weeks ago will allow Gandhi to put the Sikh issue behind him for at least the next few months. Problems of sharing local power and resources and the continued opposition of Sikh extremists, however, make it likely that Punjab will remain a major challenge for his government.

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Gandhi would clearly like to turn to economic modernization, his highest priority. The July accord, however, left several contentious issues—water sharing with neighboring states, contested state borders, and, most importantly, increased autonomy for Punjab—to be resolved by a number of commissions, some of which the new Punjab government has already appointed. Neighboring states have already begun to pressure Gandhi to guarantee their equities as details of the July settlement are worked out.

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Gandhi also faces a continuing challenge from Sikh extremists who, despite the promising Sikh turnout in the Punjab election, remain committed to overturning the accord. They can be expected to continue striking at both Sikh moderates and the Congress Party leaders they hold responsible for anti-Sikh riots last November; the bomb attacks last week in Amritsar may be the beginning of a new extremist campaign. The Indians believe the threat of an attack against Gandhi himself or Indian installations abroad may be even higher now than before the election.

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Gandhi is calculating that the moderate Sikhs who now govern Punjab can broaden their support among Punjabis and gradually isolate the radicals while the commissions deal with remaining Sikh grievances on sharing power and resources. The accord may encounter its next major hurdle in January, when the commission on water sharing is to announce its findings.

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In the meantime, however, if the Punjab government cannot contain the extremists' violent actions, both Congress Party and opposition politicians will press Gandhi to reinstitute Army patrols and restrict civil liberties. They may also make a major issue of alleged Pakistani involvement with the extremists and demand stronger action to deal with it.

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